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SUBJECT: SOUTHWEST CHINA: DONGFANG ELECTRIC RECOVERS FROM EARTHQUAKE
AND SEEKS GROWTH IN GREEN ENERGY

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CHENGDU 00000062 001.2 OF 002

CLASSIFIED BY: James A. Boughner, Consul General, U.S. Consulate
General, Chengdu.
REASON: 1.4 (b), (d)

¶1. (SBU) Summary: Dongfang Electric Corporation, a company based in Sichuan province that produces and sells billions of dollars in power generation equipment worldwide, told us its production of electric power generating turbines is increasing. Despite the economic impact of the May 2008 earthquake, and the resulting deaths of more than 200 employees, Dongfang's turbine division has no plans to move its base of operations to coastal areas. Dongfang is seeking to increase its production of wind and nuclear power equipment before 2020, and is also conducting research on high-efficiency solar cells. Company officials acknowledged government plans to build a nuclear power plant in Sichuan, but declined to say if the plant would be based on an Areva or Westinghouse design. End Summary.

Recovering after the Earthquake, and Staying in Sichuan

¶2. (SBU) Zhang Wenfeng, Deputy Secretary of the Party Committee and Executive Deputy General Manager, of Dongfang Electric Corporation's turbine division recently told Congenoff his company is recovering quickly from last year's earthquake. Zhang remarked operations in Hanwang, a city just northwest of the company's headquarters in Deyang, was severely damaged during the quake and that more than 200 employees died. Almost one year after the quake, the company has returned to 80 percent capacity, according to Zhang. He also noted that many of the company's operations in Deyang were at least partially back up and running only five days after the earthquake, although the company suffered about 1.6 billion RMB (USD 234 million) in direct losses as a result of the quake. Comment: The 80 percent recovery probably refers to reconstruction of all facilities and not just manufacturing capacity. An article in the Economic Daily this month cited the same 80 percent figure, but then claimed Dongfang's revenue increased in 2008 following a 12.3 percent increase in capacity.

¶3. (C) Despite the earthquake damage, the company has no plans to move. In response to a question about transportation of equipment from Sichuan to coastal areas where the equipment would be used, Zhang told Congenoff that Dongfang had received offers from Chongqing, Jiangsu Province, and other provinces to move the company east. Although Dongfang has been offered land and tax incentives to relocate, Zhang asserted the company has no intention of moving its operations. On the contrary, the

company is noticeably expanding its facilities in Deyang. Note: A very large new facility, easily visible from the expressway, is under construction in the south end of Deyang. Signs for Dongfang's turbine division hang at the construction site, suggesting it is part of the companies plan to expand capacity in coming years. Zhang made no reference to internal company discussions last year (reftel) to relocate, but he did emphasize, in line with our previous assessment, that Dongfang's role as a major employer in Deyang was one reason not to move east.

Coping with the Economic Downturn and Hoping for a Nuclear Deal

14. (SBU) Zhang noted the global economic crisis is having a negative impact on Dongfang's turbine business. While he did not quantify the financial impact of the downturn, Zhang did say that some customers in Guangdong Province were delaying orders as a result of the slowdown. Construction of additional power generation capacity has slackened pace. Zhang said his company would produce four natural gas turbines this year. Looking out to 2020, he noted that business is focused on increasing orders for both wind and nuclear power. Note: According to a local press report from late 2008, roughly half of the orders already placed for Dongfang turbines were for thermal power plants, almost certainly referring to coal-fired power generation

15. (SBU) Zhang confirmed recent newspaper reports that Sichuan's Nanchong city is the planned site of the first nuclear power plant in western China. Dongfang already has a cooperative agreement with Areva, a French nuclear power firm. Zhang sidestepped Congenoff's question as to whether that partnership would make it more likely that the nuclear power plant is built in Sichuan would be based on the Areva's European Pressurized Water Reactor. He said only that the nuclear power side of the business was a targeted area for growth.

CHENGDU 00000062 002.2 OF 002

Emphasis on Wind Power Production and Solar Research

16. (SBU) Zhang estimated that his company would produce 1,200 wind turbines in 2009, a roughly 50 percent increase from the previous year. These turbines would include indigenously-produced 1 and 2.5 megawatt (MW) turbines as well as 1.5 MW turbines produced in cooperation with an Austrian company. Note: A local news article from December 2008 suggested that as Dongfang expands its wind turbine production capacity, the company will aim to manufacture four times more 1.5 MW turbines than 1 MW and 2.5 MW turbines combined. Zhang said that Dongfang's turbines are currently not being used in any offshore wind power projects. He said that government authorities want to use larger 3 MW turbines offshore, but Dongfang does not yet have a product for this application.

17. (SBU) Zhang described how Dongfang is also doing research on solar energy. He said that although many parts of Sichuan have frequent cloud cover, two areas had been selected by the government for the deployment of solar panels for electric power generation. Zhang identified Aba Prefecture, a Tibetan Autonomous Prefecture north of Chengdu, and Xichang, a city south of Chengdu, as the two target areas. When Congenoff noted that both of these areas are mountainous and it might be difficult to construct large fields of solar panels, Zhang responded that there are also grasslands in both locations that will provide the area needed for the development of the solar fields. He also mentioned that solar cells could be placed on taller buildings, but did not't elaborate further.

18. (SBU) Zhang observed that the cost of solar energy remained an obstacle to more widespread use but said that the central government is providing a 20 RMB (USD 3) per watt subsidy for the operation of solar power. The Ministry of Finance issued a circular last month that outlined the standard 20 RMB per watt

subsidy and encouraged local governments to provide additional subsidies and economic incentives. Zhang also said that Dongfang was doing research on multiple-junction photovoltaics-a layered solar cell that may be able to achieve relatively high efficiency levels-and nanoparticle-based photovoltaic films.

¶9. (C) Comment: Per reftel discussion with a local attorney, immediately following the earthquake that devastated Dongfang's Hanwang operations and resulted in casualties at the plant far greater than were originally reported, there had at the time been serious internal discussions within the company about moving at least some operations eastward. Given the significant role it plays in the local economy, however, it is quite possible that Sichuan authorities stepped in and made the company a deal it could not refuse.
BOUGHNER